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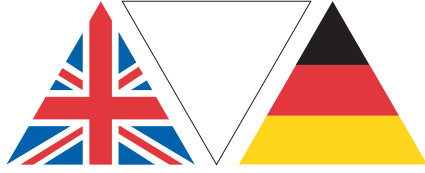
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**Anglo-German Foundation for the  
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# **Human Resource Management of US Multinationals in Germany and the UK**

**Michael Muller-Camen, Anne Tempel, Phil Almond, Tony Edwards, Anthony Ferner, René Peters, Hartmut Wächter**

**2004**

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**September 2004**

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This report is part of the work of an international project on HRM in US MNCs in Europe, coordinated by the Department of HRM, Business School, De Montfort University, UK. The other research teams are: Ireland – University of Limerick (Paddy Gunnigle, Michael Morley, Bob Pattinson) and Spain – IESE Business School (Javier Quintanilla, Marta Portillo). The authors are grateful to the other teams for access to some of their interview data. These have been useful as an additional check on the validity of the main findings of the British and German study reported here.

## Summary

This research examines human resource management (HRM) in subsidiaries of US multinational firms (MNCs) operating in the UK and Germany. Together with parallel studies in Ireland and Spain it explores the potential tensions resulting from a transfer of US-type human resource (HR) policies to Europe. Whilst we expected that the liberal market British economy would not provide a major challenge for the transfer of US practices, we foresaw that the more densely institutionalized German business system would constitute a more serious barrier to transfer.

This report is based on case studies of four large US MNCs. In all four firms we conducted interviews in the British and German subsidiaries, as well as the US and/or European headquarters, with HR managers, line managers and non-managerial employees. For three substantive issues – diversity management, employee participation and pay – as well as for the processual issue of ‘centralization–decentralization’ this report analyses whether the four US MNCs studied have global policies, how these are transferred to Europe and the extent to which they have to be adapted to the British and German contexts.

Our findings support previous research which suggests that HR policies in US MNCs are not only relatively standardised, but also build on US domestic policies. However, the mechanisms of transfer appear to have changed. Whereas in the past, written guidelines, the transfer of home-country employees and extensive reporting seem to have been the major mechanisms employed to ensure that global policies were applied, today HR information systems, regional European headquarters and international teams of HR managers seem to play a more important role. Over the last decade, national subsidiaries in both countries have lost autonomy in HR decision-making. However, this has not been primarily in the form of recentralization towards headquarters, but rather towards the regional level and/or business unit.

Turning to substantive issues, as expected, the German institutional environment represents a stronger challenge for US MNCs than the British one. Of particular importance is codetermination which affects all four firms and which in at least three of them exerts pressure on local management to adjust global policies to local conditions. However, in most cases the observed deviations were only marginal. Similarly, the German system of multi-employer bargaining does not constitute a major hurdle for US MNCs seeking to apply global practices. Although in general German host-country pressures were stronger than those in the UK, we found that UK management was able to use its role of interpreter of the local environment to force some adaptation of global policies, particularly in the substantive area of diversity management, suggesting that the extent to which local adaptation occurs is not entirely dependent on the strength of employment-relations institutions in the host country.

Regarding practical implications, our research points firmly to the limits of global policies. With their knowledge of the local context subsidiary-level managers can and should have some freedom to adapt global policies to the local context. At least in Germany they have an additional role, as they have to manage a complex institutional environment. The

system of collective bargaining and codetermination fosters collective HR policies that are often incompatible with the more individualistic global policies pursued by US MNCs. Nevertheless, as the case studies show, US MNCs are able to manage these institutions in such a way that the need for adaptation is minimized. This process of institutional arbitrage tends to be performed by local managers with a deep knowledge of the host environment.



# 1 Introduction

One of the most heated current debates among academics and policy-makers concerns whether economic globalization is leading to convergence between national systems or whether different national institutional frameworks are retaining their distinctiveness and absorbing common challenges in different ways (e.g. Berger and Dore, 1996; Crouch and Streeck, 1997; Djelic, 1998; Guillén, 2001; Lane, 2000; Ruigrok and van Tulder, 1995; Sorge, 1996). The role of multinational companies (MNCs) in promoting homogenization or reinforcing diversity is at the centre of this debate. At one extreme, MNCs are regarded as footloose, autonomous actors operating in a new global space, independent of any home country and thus representing the key promoters of globalization and convergence (Ohmae, 1990). At the other extreme, the notion of the footloose, denationalized enterprise is regarded as a myth and MNCs are portrayed as being deeply embedded in their home-country business systems (Hirst and Thompson, 1996; Hu, 1992). Between these two extremes, there are authors who regard MNCs as being shaped but not completely determined by their embeddedness in a particular business system: for example, they highlight the complex processes within MNCs as they seek to reconcile conflicting influences of home country, host country and supra-national environments (Ferner *et al.*, 2001; Lane, 2001; Morgan, 2001), their ability to transfer managerial practices (Mueller, 1994), their 'constrained' footlooseness (Dörre, 1997) and their emulation of 'best practice' from 'dominant' countries (Smith and Meiksins, 1995).

This report presents the results of a study of the management of human resources in US MNCs operating in Germany and the UK. The investigation has sought to examine how US MNCs are influenced by their home-country business system in their HRM policies, whether HR practices in their German and British operations are distinctly American and what happens when these practices are implemented in the host-country business systems of the UK and Germany. Many studies in the field of HRM identify the country of origin of MNCs as a key factor shaping their behaviour (for a review see Ferner, 1997; Edwards and Ferner, 2002). Whilst they have been useful in establishing systematic differences in the ways in which, for example, American, Japanese and European MNCs manage their human resources, they have been less successful in explaining such differences in behaviour because of both theoretical and methodological limitations.

In theoretical work there has been a tendency to rely heavily on the cultural-values approach to provide possible explanations, with Hofstede's (1980) research being particularly widely drawn on. Unfortunately, the cultural-values approach is not effective in respect of the following: clearly identifying which elements of culture shape firms and their behaviour; pinpointing the underlying differences between national variants of economic organization; or identifying and explaining how company behaviour changes over time (Clark *et al.*, 1999; Ferner, 1997; Sondergaard, 1994; Tayeb, 1998). Methodologically, there has been a tendency to rely on survey-based research methods. Although useful in providing an overview of broad patterns, they are often too blunt an instrument to explain such differences or to capture the subtle, complex and changing ways in which MNCs operate. In seeking to overcome these limitations and to investigate the complex interaction between US MNCs and the business systems in which they originate and operate, the investigation which is reported here has taken a modified

version of the institutional approach as its theoretical basis and the in-depth case-study approach as its research method.

The report is structured as follows. Section 2 discusses the theoretical approach taken. Section 3 outlines the research method and briefly describes the case-study companies. Section 4 provides a detailed discussion and analysis of the behaviour of the four US MNCs covered by this research in the UK and Germany. Finally, in Section 5 we present our conclusions, exploring the theoretical and practical implications of the research.

## 2 The theoretical approach

### a) The institutionalist approach

The institutionalist approach has been developed by a number of authors conducting cross-cultural comparative research. It is in effect a collection of frameworks – under various headings – which share the view that capitalist economic organization continues to be influenced by the national institutional frameworks in which it is embedded, thus producing a variety of alternative and often competing ‘social systems of production’ (Hollingsworth and Boyer, 1997), ‘market economies’ (Hall and Soskice, 2001) or ‘business systems’ (Whitley, 1999). These institutional approaches share a number of common features in attempting to provide a conceptual framework for the comparative study of various forms of economic organization. They argue that distinctive forms of economic organization have become established in particular national contexts through their interdependent development with dominant macro-level social institutions during and after industrialization. Thus these approaches reflect a historical dynamic and, whilst change may occur, its direction is strongly constrained by the mutual interdependence of forms of economic organization and key institutions. Most importantly, perhaps, these frameworks represent one of the primary challenges to the argument that the increasing internationalization of economic activity is necessarily leading to convergence. Whilst they recognize that internationalization may be leading to greater and more systematic mutual influence between different national systems, particularly through the borrowing and diffusion of practices, they argue that this does not necessarily lead to cross-national uniformity. Rather, they stress, borrowed and diffused practices are themselves integrated into nationally distinct patterns of economic organization and their implementation may result in both convergence and continued persistence of national differences.

On the basis of their frameworks, Hall and Soskice (2001) have classified different ideal types of market economy or business system according to their broad traits, differentiating between ‘liberal’ and ‘coordinated’ market economies. Essentially, in *liberal market economies*, such as the UK or the USA, firms coordinate their activities primarily through hierarchies and competitive market arrangements; in contrast, in *coordinated market economies*, such as Germany, there is greater emphasis on coordination through non-market mechanisms.

### b) HRM in multinational companies and institutionalist frameworks

In relation to multinational companies and their management of human resources, the institutional approach outlined above leads to a focus on the ways in which institutions in the MNC’s home country inform its behaviour internationally (‘country-of-origin effect’) and the way this behaviour needs to be modified in order to fit the institutional

context of the host countries in which it operates ('host-country effect') (see particularly Ferner, 1997). This requires a 'sustained, complex and detailed engagement with national business contexts' (Ferner, 2000, p. 1). Such an engagement with national business contexts involves considering the implications of the 'cohesiveness' of different national business systems for the behaviour of their MNCs. For example, it is argued that MNCs based in a national business system with a relative lack of constraining institutions in the field of employment relations are less likely to regard their institutional heritage as something to escape from when operating abroad than MNCs based in strong and cohesive institutional frameworks which impose a template of regulation for employment relations. In other words, German firms may be willing to tolerate bodies such as works councils in their home country, as this is part of a wider system of the provision of 'collective goods' for capital, such as vocational training and wage control. However, they are unlikely to wish to replicate individual elements of the German system abroad if these wider institutional supports for the German variety of capitalism are not in place. Together, these factors can be used to construct a comprehensive foundation upon which to investigate the ways in which MNCs are informed by their home-country business systems and whether they attempt to transfer country-of-origin practices or to escape their institutional heritage when operating abroad.

In terms of the interaction between MNCs and host-country national business systems (host-country effect), the key issue is the extent to which MNCs reproduce home-country behaviour abroad or adopt different behaviour. The reproduction of home-country practices abroad is not an either/or matter. Implementation of a practice at subsidiary level may take on a variety of forms. For example, country-of-origin practices may be reshaped in the host-country context into hybrid forms (Boyer *et al.*, 1998; Doeringer *et al.*, 2003). Moreover, they may lose their original meaning, as highlighted by the ambiguous use of German-style vocational training in the Spanish subsidiaries of German MNCs (Dickmann, 1999). In this vein, Kostova (1999) and Saka (2002) distinguish between the implementation and 'internalization' of practices at subsidiary level, the latter referring to the adoption by employees of the meaning and spirit behind practices rather than simply their formal nature.

Where MNCs adopt practices different from home-country patterns this can be a reflection of either 'forced differentiation' or 'differentiation by choice' (Ferner, 2000). MNCs may be forced to adopt practices different from home-country patterns where the institutional distance between home country and host country is great. Therefore, MNCs may be forced to differentiate practices in host-country environments through the presence of constraining institutions (e.g., US MNCs operating in much of continental Europe cannot simply transpose non-union approaches to industrial relations), but equally where institutional supports for home-country practices are lacking (e.g., German MNCs may find it difficult to transfer their patterns of work organization to countries such as the UK, given the lack of a stable system of vocational training in the latter country). Differentiation by choice can reflect MNCs' utilization of the flexibility offered by host-country environments to adopt practices very different from those characteristic of home-country behaviour, but can also reflect the division of labour between core domestic operations and peripheral foreign activities.

However, we argue that the conceptualization and analysis of HRM in MNCs cannot be treated simply as a matter of how strongly home- and host-country institutions influence HRM practices and that outcomes are not simply a reflection of the balance between these two sets of influences. Crucially, research needs to avoid reification of the MNC and

examine instead the micro-sociological and political relationships between actors at different levels within the MNC. Thus, we need to examine not only how actors at corporate level within MNCs either accept or seek to overcome institutional constraints, but also how actors at the subsidiary level, whose interests diverge partially from those of top corporate managers, may seek to fend off, modify or dilute the transfer of practices. In other words, our conception of the MNC needs to be pluralistic, examining agency within the context of structure rather than seeking to reach deterministic statements about either home- or host-country effects.

### **c) The American business system and the 'Americanness' of US MNCs**

A comprehensive analysis of the American business system is beyond the scope of this report. Such an analysis – which served as the initial basis for the current research programme – can be found in Ferner (2000). Instead, we will briefly outline the major features of the American business system and suggest how it influences the behaviour of US MNCs.

A first key feature of the American business system concerns its position in the global economic order. Since 1945, the USA has occupied a hegemonic position in the global economy, which has been reinforced by its military and political strength. This has provided channels, such as the Marshall Plan and trade liberalization, through which an American model of management could be exported to other countries (Locke, 1996; Djelic, 1998). It has also meant that the American management model has come to be regarded as superior and internationally diffused by American business schools, consulting firms and MNCs.

Secondly, the American business system is a distinct model of economic organization within the ideal type of 'liberal market economy' (Hall and Soskice, 2001). The primary role of the (national) state, both at federal and State level, is to set a framework for economic activity within which inter-firm relations and relations between firms and their workforces are governed largely by contractual market relations, with little input from business associations. Such arm's-length contractual relations are reflected in the labour and financial markets.

Labour markets in the USA are very flexible, imposing few institutional constraints on labour mobility between firms or the adjustment of workforce size. The major exception to the lack of government regulation in the American labour market is equal employment opportunities. Flexible external labour markets have traditionally been combined with strong internal markets for core workforces in large firms. However, more recent pressures from international competition and financial markets have led to the decline of such internal markets, with job tenure becoming increasingly insecure and the use of temporary and contract work expanding (Ostermann, 1999).

The American financial system is characterized by an absence of close, long-term links between financial organizations and non-financial firms. Relatedly, equity markets have become highly developed (O'Sullivan, 2000). Major changes in the financial system in

recent decades, resulting in particular from international competition, a shift of share ownership to institutions and financial deregulation have led to an aggressive market for corporate control and a strong shareholder-value ideology. A key consequence of firms' efforts to increase shareholder value has been the downsizing of workforces (Ferner, 2000).

A third key characteristic of the American business system is the dominance of an individualistic ideology, which is manifested particularly in employers' strong anti-state and anti-union stance. Deep-rooted anti-unionism is matched by trade union weakness (for a critical analysis of the historical reasons for the weakness of the US trade union movement, see Colling, 2001). Unionization has traditionally been low and had fallen from 24 per cent in the 1970s to 14 per cent by 2001 (Mishel *et al.*, 2003). The New Deal industrial relations system which emerged from the 1935 Labor Relations Act temporarily strengthened the position of trade unions by establishing legal mechanisms for trade union recognition. By the mid-part of the twentieth century, employment relations in many manufacturing firms were underpinned by legally enforceable contracts and highly codified collective agreements (Kochan *et al.*, 1994) and collective bargaining set wages for the majority of blue-collar workers in key industries. However, from the 1960s structural changes and intensified pressures from international competition and financial markets reduced employers' need for industrial relations stability and increased their need for flexibility. Employer support for collective bargaining declined and they increasingly turned to non-union strategies, relocating operations to greenfield sites located away from union strongholds, in 'Right to Work' states where the New Deal industrial relations settlement did not fully apply.

Non-unionism has been a continuous feature of industrial relations in the USA, even during the New Deal era and has taken a variety of forms, ranging from 'low-road' to 'high-road' variants (Katz and Darbishire, 2000). One high-road variant, referred to by Jacoby (1997) as 'welfare capitalism', is based on the ideology that the firm alone should provide for the security and welfare of workers without third-party interference and encourages a strong mutual commitment between the firm and the employee. This ideology was adopted by many major American companies which, in order to keep unions at bay, introduced innovative 'human relations'-style personnel management policies, including performance-related pay, team working and employee opinion surveys (Jacoby, 1997; Foulkes, 1980). It both influenced and was influenced by the union sector which looked to welfare capitalism as an alternative template when the New Deal model began to decline (Ferner, 2000). The welfare capitalism model has itself come under pressure, in particular from international competition. This has seen many traditional welfare capitalism companies facing crises and having to reduce radically their workforces, which in turn has undermined their commitment to employees.

Against the background of these features of the American business system it is a key premise of our research that US MNCs are likely to transfer aspects of 'Americanness' to their operations abroad. First, the dominant position of the American business system in the global economic order since 1945, underpinned by channels of influence in other countries and the notion of American management practices as one-best-way recipes, is likely to facilitate the export of home-country practices by US MNCs. In turn, resistance on the part of host countries to the diffusion of American management practices is likely to be reduced because they perceive an interest in emulating them.



Secondly, the relative lack of institutional regulation in the USA offers firms, at least superficially, a relatively wide scope for 'strategic choice' and is therefore not likely to be seen by American MNCs as imposing constraints from which they would seek to escape when operating abroad. Additionally, the competitive advantage of American firms has largely been based on the establishment of formalized 'managerial capitalism' (Chandler, 1990) in order to serve mass domestic markets using early-twentieth-century innovations such as scientific management and Fordism. It may be expected that American MNCs will seek to extend this strategy for seeking competitive advantage to foreign subsidiaries.

Thirdly, US MNCs are embedded in a business system dominated by an individualistic ideology, questioning 'third-party' involvement, whether from the state or trade unions. They are therefore likely to be less tolerant of institutional constraints in host-country environments than MNCs of other nationalities.

#### **d) Potential varieties of 'Americanness' in Germany and the UK**

Although we argue that US MNCs are likely to transfer aspects of their 'Americanness' abroad, their ability to transfer country-of-origin practices and the way in which Americanness is manifested in their foreign subsidiaries is shaped by the nature of host-country business systems.

The British business system is in many respects institutionally close to the American business system within the category of 'liberal market economies' (Hall and Soskice, 2001). However, it has not traditionally been characterized by such a strongly individualistic ideology or anti-union stance on the part of firms as the American business system. Marked by the absence of legal regulations, employment relations in the UK have traditionally been contingent on negotiated regulation by the parties involved. The pluralist industrial relations system resting on joint regulation through collective bargaining which developed in the UK has, however, been undermined by legal, economic and political changes in recent years, to be increasingly replaced by unilateral regulation by employers (Brown *et al.*, 1997; Cully *et al.*, 1999; Dickens and Hall, 1995; Purcell, 1995).

As a 'coordinated market economy' (Hall and Soskice, 2001) the German business system is more institutionally distant from the American business system. It is much more institutionally regulated than the USA. In particular, the labour market is highly regulated, both by statute and by formal agreements negotiated by encompassing actors. The legal enforceability of collective agreements in Germany has given employers' associations and trade unions the status of law-creating institutions, able to generate socially legal norms. The provisions of industry-level collective agreements cover all employers affiliated to employers' associations. Moreover, the Works Constitution Act has the potential to subject all workplaces with more than five employees to uniform regulation of the employer–employee relationship at plant level. These key institutions of the German industrial relations system can impinge on the ability of US MNCs to preserve their managerial prerogative from third-party interference (Muller, 1998). Although the stability and strength of multi-employer bargaining has been undermined in recent years

by globalization and Reunification, the bulk of the German workforce is still covered. Nevertheless, the German industrial relations system is in transition. The coverage of multi-employer bargaining has significantly declined in many industries and is particularly low in eastern Germany (Kohaut and Schnabel, 2003; Streeck and Rehder, 2003; Zagelmeyer, 2004). Pay has become more related to individual performance (Bahnmüller, 2002). A longitudinal analysis of data from the Cranet-E survey suggests that over the 1990s there has been a significant increase in the use of performance-related pay in Germany (Muller-Camen *et al.*, 2004).

Against this background, it can be expected that Americanness is likely to be more manifest in the institutionally similar system of the UK and less manifest in the institutionally distant and highly regulated system of Germany. However, informed by the lack of institutional constraints and the individualistic ideology of their home-country business system, it can be expected that US MNCs will seek to use all available means to reduce institutional distance in Germany by avoiding or manipulating institutional constraints, particularly where they go against their desire to preserve managerial prerogative from third-party interference, such as from trade unions and employee representatives. It can be expected that actors at subsidiary level in the UK and Germany may adopt strategic responses to limit the dual pressures to adopt home-country practices and to conform to host-country institutions and the expectations of host-country actors. How these challenges are reconciled in the case-study companies will be considered in section 4.



### 3 Methods and the case-study companies

#### a) Methods

As has been outlined, the research had three key objectives: (i) to investigate how US MNCs are informed by their home-country business system in their HRM policies, (ii) to identify whether HRM practices in their German and British operations are distinctly American and (iii) to explore what happens to such practices when they are introduced into the host-country systems of the UK and Germany. In order to fulfil these research objectives the case-study method was chosen. Whereas surveys have major advantages in answering 'how much' questions, they are less appropriate for assessing both 'how' and 'why' questions which are of pivotal interest for this study (Yin, 1994). Furthermore, although survey work is appropriate for identifying broad cross-national differences, it is less useful for exploring complex chains of causality, such as the ways in which headquarters direct subsidiary behaviour and actors at subsidiary level modify practices. Case studies can help 'the researcher to go deep in complex matters, which are not wholly understood' (Stewart *et al.*, 1994, p. 13).

The research was conducted in parallel projects in Germany and the UK, matched by further projects in Ireland and Spain. Fourteen case studies in a wide range of industries were carried out in the UK and ten in Germany. This report will discuss four core case-study companies – two manufacturing and two service companies – in which sufficient access was granted in both countries. In each of the companies, multiple interviews were conducted in the German and British subsidiaries and at headquarters level, either in the USA or, in one case, at European headquarters. Interviews were conducted primarily with senior HR managers, and with employees and their representatives, but also with key managers of other relevant functions, such as finance and operations. This research technique enabled data triangulation. At organizational level it incorporated both the headquarters' view 'from above' and the subsidiaries' view 'from below'. At subsidiary level it incorporated the perspectives of both management and employees and their representatives.

The semi-structured interviews were based on interview templates, designed to increase the comparability of the research, whilst at the same time allowing for adaptation to the very different institutional frameworks of Germany and the UK. Interviews generally lasted between one and two hours, although some were much longer. They were tape-recorded, fully transcribed and some of them were conducted jointly by members of the UK and German team. Interviews were supplemented with internal company publications in the form of company newsletters, work agreements and mission statements and with published data from sources such as annual reports, company websites and practitioner journals.

## b) Case-study companies

The case-study companies have been given pseudonyms as access was granted on condition of anonymity. Table 1 provides an overview of the case-study companies and the number of interviews conducted.

**Table 1**  
**The case-study companies**

| Company pseudonym               | CPGco   | ITco  | Business services                           | Logistico          |
|---------------------------------|---|---|---|--------------------|
| Sector                          | Manufacturing: consumer and professional products | Manufacturing and servicing of IT equipment | Business consultancy and technical services | Logistics services |
| Employment – global             | <100 000  | >200 000                                    | <100 000                                    | >200 000           |
| % workforce located outside USA | 40  | 50  | 50  | 10                 |
| % revenues outside USA          | 50  | 60  | 50  | 20                 |
| No. of interviews:              |   |   |   |                    |
| HQ                              | 3 (US)  | 4 (US)                                      | 3 (US)                                      | 1 (European HQ)    |
| UK                              | 20  | 24  | 2   | 2                  |
| Germany                         | 3   | 5   | 4   | 4                  |

The origins of *CPGco* and its British and German subsidiaries can be traced back to the late nineteenth century. The business focus is on the development, manufacturing and marketing of products and services for both consumer and professional markets. Technologically the business is moving from a relatively stagnant phase to a more challenging era as a result of the impact of new technology. The company is structured around a matrix of customer-facing product groups and geographical units, with a strongly centralized global manufacturing operation. More recently, there have been moves towards increased centralization within international product groups, of which there are currently six. The level of European influence on the British and German subsidiaries varies from business to business. Most of the strategic jobs are located in the USA, although an Asian subsidiary has assumed a key role in one of the business areas. The British subsidiary is larger than the German one, which some years ago lost its only production plant.

Formed in the early twentieth century, *ITco* operates in the field of IT manufacture and services. The German subsidiary and the US parent were established at the beginning of the twentieth century. The UK presence dates back to the 1950s. Structurally, the company is a matrix of geographic regions and business divisions: the organizational importance of country operations has decreased sharply. Whilst it enjoyed a high degree of market dominance in its product market in the past, its position was eroded from the 1980s and 1990s, triggering a financial crisis. This had a major effect on workforce size, with thousands of redundancies in Germany and the UK. Recent expansion into service provision has seen global staffing levels rise to a new high. The balance of employment in both Germany and the UK has reflected these changes, with a dramatically reduced manufacturing workforce and a rapid increase in employees providing services. In the German operations, which used to be the company's largest international operations,

four major production sites were sold. Nevertheless, together with France and the UK, the German subsidiary is still among the largest in Europe.

*Business Services* was founded in the 1950s, originally as a partnership, and has only recently obtained a public listing. It operates with one global brand, providing consulting and technology outsourcing services to both private and public sector organizations. The nature of the work gives rise to a group of professional employees who are functionally and geographically very mobile. The business is structured as a complex matrix. It is divided into five global market units, which are supported by service lines and overlain with 15 geographical units. Both the British and German operations were established in the 1980s. The British operations have grown more rapidly than the German operations and are seen by German respondents as being five years ahead in terms of development, client base and headcount. the UK is also an important location of senior management, with regional (European) and increasingly global functions.

The origins of *Logistico* can be traced back to the turn of the twentieth century, but it only began to internationalize in the 1970s. The company is organized into three main segments: US domestic operations is the principal market segment, complemented by international operations and business outside its core activity, i.e. supply-chain management. *Logistico* has grown rapidly in recent years, particularly through strategic acquisitions of existing companies. It has sought to build a global brand and this is increasingly reflected in the centralization of policy, including aspects of HR such as management training. *Logistico* Germany is the company's largest operation outside the USA. Set up in the 1970s on the model of the company's US operations, it was one of the first international locations and the oldest European subsidiary. More than half of the company's European employees are located in Germany and many managers at European level are German nationals. Although there is a small European headquarters, this is regarded by German respondents as being less significant than the German headquarters. *Logistico* UK was formed in the early 1990s as a combination of greenfield operations and acquisitions.

## 4 Key issues in HRM in US MNCs in the UK and Germany

Rather than attempting to present a descriptive summary of HR policy across the board in the case-study companies, this section presents more detailed findings on four specific issues that have emerged as key elements in the management of international HRM. The first – the balance between centralization and decentralization – is crucial to an understanding of the mechanisms whereby domestic US influences and policies are transferred to the subsidiary. The remaining three are substantive issues which are strongly ‘embedded’ within the assumptions and institutions of the American business system: the attitude to collective employee representation, the pay and performance management system and the emphasis on employee diversity. An examination of these issues allows the exploration of underlying country-of-origin influences, international policy transfer and adaptation to the host environment.

### a) Centralization, standardization and formalization

A plethora of studies has demonstrated that US MNCs are more centralized than those of other nationalities in the way they manage their international workforces and that they rely on the use of standardized and formal policies to achieve this (for a review, see Ferner *et al.*, 2004). Headquarters play an important role in setting or influencing policy on payment systems, industrial relations, communication and training policies (see e.g. Dunning, 1998; Harzing, 1999; Muller, 1998). Thus there appears to be a characteristic *modus operandi* in US companies that is likely to lead to a strong American influence over the formation of international policies in substantive areas of employment relations. In this section we first examine the balance between centralization and decentralization in our sample firms; then we analyse the extent to which they are able to transfer central policies and the influence subsidiaries have on this.

#### The balance between centralization and decentralization

Our study to a large extent confirms the findings of earlier research. In the four sample firms, as well as in each of the national studies more generally (for a more detailed account of all case studies conducted in Germany and the UK, see Wächter *et al.*, 2003, and Almond *et al.*, 2003, respectively), there was considerable centralization of policy, either at corporate level or within international product divisions.

The extent of central direction varied with the company and the issue. Policies on pay and appraisal for senior staff tended to be highly prescribed, with local managers being accorded relatively little room for manoeuvre in the way these operated. In contrast, subsidiaries generally had more freedom to manage non-managerial employees. For example, formal global performance appraisal systems often stopped at the level of first-line management and central policy laid down only a general framework which subsidiaries were free to adapt to local circumstances. Even for non-managerial

employees, however, there were many highly prescribed policies, such as the sophisticated time measurement system for standard manual activities in *Logistico* that is used worldwide. In general, rather than following global standards, these centralized policies were extensions of domestic US policies. As we have argued elsewhere, this can be traced back to features of the American business system, particularly to the management systems that companies developed to manage geographically dispersed units deploying standardized mass production technologies (Ferner *et al.*, 2004).

Rather than following global standards, centralized policies generally build on domestic US policies. The only exception appears to be *Business Services*, where a backlash by European partners against ethnocentric US policies and the election of a new CEO seem to have led to the development of a geocentric approach. According to a German *Business Services* manager '*there are now no project teams which are made up solely of Americans and in which people from Europe and Asia are not involved*'. Ideas developed in one region will be piloted in another to ensure that they can be globally adopted, as described by one of their US managers:

Ideas that start in the US go to Europe to see if they work in one of the European countries, because it's very hard to sell an American idea to the Continental Europeans unless you can prove that it's working there and that you've got sponsors on the Continent. The same is true in reverse that if a good idea arises really anywhere in Europe, UK or on the Continent, it's very hard to get the Americans to buy into it until there is some proof that it can be scaled to the US. (US HR manager, *Business Services*)

British and German respondents in all four sample firms suggested that in recent years HR policies have become more standardized. A senior German *CPGco* HR manager summarized this trend as follows: '*In the past we had one meeting per year. Information was more or less exchanged but that was it. Now everyone is assigned tasks. These tasks are pre-set centrally and the possibility for the countries to tailor something according to local needs is all but non-existent.*' However, this picture has to be qualified. *ITco*, for example, had moved away from a highly centralized global approach in the 1980s, and granted more power to the country subsidiaries in order to encourage greater flexibility and innovation. Financial crisis led to recentralization in the 1990s, but this was to the level of regional and business division headquarters rather than to the corporate centre. Similar to other functions the region has become the predominant level in most areas of HR policy. National HR directors no longer have the influential positions they once did, although there was some variation in this respect. For example, compared with his UK counterpart, the German HR Director continued to play a key role in operating the complex and highly regulated German IR system (see Box 1). Alongside this, there has been a marked reduction in HR staff at national levels, particularly due to the introduction of a telephone-based service centre dealing with basic HR-related enquiries from across Europe (Almond *et al.*, 2004).

Similar processes are to be found, albeit somewhat less dramatic, in the other three firms, with European integration strengthening the importance of the European regional level in the implementation of MNCs' HR policies, implying both a recentralization away from national level and a relaxation of detailed control from corporate headquarters. However, European headquarters seems to be more important at *ITco* and *CPGco* than at *Business Services* and *Logistico*. There is not always a clear distinction between management levels, though in several companies parts of the regional organization were physically located in subsidiaries rather than at separate regional head offices, often resulting in regional and

**Box 1****The changing roles of HR in the region and in national subsidiaries in *ITco***

In the last few years, HR processes have been concentrated at regional level. Regional managers in areas like remuneration or employee resourcing now set the objectives of their functional counterparts in the country subsidiaries. The national HR managers' role is primarily to implement policy within the legal and IR constraints set by the national environment; they have therefore lost power and influence within the wider corporation:

The role of the HR director in the country has very much changed, probably five or six years ago they were much more empowered to do their strategies, to determine their own salary policies, now this is decided by the process leader sitting in [European headquarters]. ... We have dramatically reorganized, and I deliberately used the word 'dramatically' because many of our managers could not cope with this change of roles and among us I would say, yes, maybe two-thirds, even more, have been exchanged. There are people who could cope with this change and the new requirements, ... the majority of our country HR leaders in [the European region] are not here anymore, they could not cope. (Regional HR manager, *ITco*)

subsidiary HR managers being in offices next door to one another. Within the region, key roles were sometimes performed by American expatriates, who had come from, and would return to, domestic operations and who retained close links with their home base. Hence, this emerging management level can be seen as something of a 'battleground', as the regional headquarters are staffed partly with Americans with close ties to the corporate headquarters and partly by those promoted from the operating units who retain close alliances with those in the subsidiaries.

The growing role of business divisions has muddied the waters even further. These structures play an important part in integrating productive activity across borders in *Business Services*, *CPGco* and *ITco*, encouraging the devolution of HR issues from corporate headquarters to business divisions and simultaneously a reduced role for the national subsidiary level. Sometimes these structural principles are in tension. For example, the logic of the global product structure may conflict with cost-saving drives that require greater cross-business coordination of HR to avoid unnecessary duplication. This was manifested at *ITco* in the concept of 'shared HR services' and in cross-national HR 'call centres' to provide specialist HR advice on a regionally centralized basis.

**Transmission mechanisms and politics**

The second principal factor that complicated the nature of central control was that while former systems and procedures were important, as argued above, these were complemented by informal networks and personal relations. Formal guidelines, which are still very important at *Logistico*, seem to have become less valid in the other three firms. According to a German *CPGco* manager, downsizing left too few headquarters employees to update and re-adjust such guidelines. '*We do have world-wide guidelines but if you were to stick to them you could stop working. ... Then we had to lay off people*



*everywhere and there was nobody who continued to work on those questions.'* In contrast to written guidelines, control by reporting has seemed to gain in importance with the growing use of IT. For example, at *CPGco*, a new, potentially decisive change with regard to reporting is the worldwide introduction of the SAP R3 system. This will make a wide range of data, which are currently held in the different countries, available to central management. This might reduce the amount of reporting requirements, but numerous comparisons and benchmarking analyses can, and will, be done. This will increase the need to find explanations for deviations which, according to the finance manager interviewed, may often be impossible. *Business Services*, *CPGco* and *ITco* also have a global HR information system. At *Business Services* this includes data on employee CVs, working hours spent by each project and consultant, results of attitude surveys, training costs and pay roll.

Formal processes and hierarchical authority in the sample firms were supported by a significant expatriate presence in senior management positions at the subsidiaries or the regional level. These individuals could tap into global interpersonal networks that smoothed the operations of formal systems and blurred the rigid distinction between central authority and subsidiary autonomy. At *Business Services* new HR instruments are often developed by international teams.

The significance of these two factors – the growing importance of regional structures and business units, and the reliance on informal networking to complement formal policies – is that they allowed some scope for organizational actors below the corporate headquarters level to challenge the role of the centre. Accordingly, in the case studies there was a constant interplay of interests at different levels within the MNC. This meant that the precise degree of centralization was not a given, imposed by the corporate leadership in response to objective structural factors, but rather was subject to negotiation between actors with control over various kinds of resources. The relative power of subsidiary actors to contest the balance between centralization and autonomy was being enhanced by such objective changes as the increasing proportion of company operations outside the home country (e.g. *Business Services*), the existence of important specialist competences in foreign operations as a result of mergers and acquisitions and the need to devolve strategic responsibilities to subsidiaries so that they could better serve distinctive regional markets.

One consequence of this was that there was negotiation over both policy formulation and implementation. Subsidiaries were sometimes able to win a role in policy creation, even where policy was centralized and standardized. This was particularly true of companies that had been internationalized for a long time, and where the subsidiaries had a strong position within the wider company. One upshot was the growing importance of cross-border 'virtual' networks and working groups, sometimes with a policy development role, using techniques such as e-mail and video-conferencing. Virtual meetings have become much more common in order to reduce travel costs and the use of conference calls has increased networking. One consequence of this informal networking was that some HR initiatives that became global policies were modelled on policies from outside the USA. For example, in *Business Services* the German subsidiary developed a leadership development course for younger, more inexperienced people coming into partnership roles.

In Germany, they've piloted their own leadership development course which went down very well. ... Those ideas were then developed and we now have a global

leadership development programme. Now to that extent, I think we really developed on that idea and invested a lot of additional time, effort and energy, and they have [Headquarter HR Director] come in and helped shape that programme, but it was a germ of an idea that started in Germany. (British global HR manager, *Business Services*)

Of course, the mere existence of international teams did not guarantee non-headquarters managers a say in policy development. A prime example of this was at *ITco* where one European manager described the operation of international teams as dominated by US managers (See Box 2).

### **Box 2** **Policy Development and International Teams**

I am, of course, part of the global team and we have regular exchanges, but just to show you a practical example, when we meet on a global level in New York, for example, you will find one representative, that is me, from Europe, my counterpart from Asia, and then you will find 18 Americans in the room! [laughs] Just to show you the proportion and of course we will try to [have] some influence here; they are all very polite to us, it's very open, but at the end of the day they will more or less ... , from their understanding they will ask us what they have developed, how and if we can roll that out in our geography and maybe there's a preliminary step that they inform us that they intend to do something, but usually they are very much US-centred, okay. And then they just, they just implement these things in our geography, so to be very honest its not a real global team; where we say okay this is a global company let's have equal representation, sit down at a round table and decide what to do here, to cater [to] the needs of the countries outside of the US, we are very much dominated for our support by the US needs and then we have to see how we can live with it or how we can adapt it here. (regional HR manager, *ITco*)

While local managers had only a limited role in shaping policy formation, subsidiary actors had rather more *de facto* power to challenge or resist central control when it came to policy implementation. Most obviously, they had considerable scope to interpret policies in the light of local conditions. One lever for local managers was the existence of host-country institutions, allowing them to resist standardization by arguing that global or regional policy had to be modified to fit local circumstances. For instance, within the German employment system, initial vocational training is of paramount importance. As budgets have become more important than headcounts in HR planning, *ITco* Germany has to justify this investment in terms of profitability and cost. One way to do this is to sell it as a local way to achieve the corporation's aim of building a highly qualified workforce.

This is particularly the case, as we discuss in more detail below, with regard to collective representation. More generally, there was some ambiguity concerning the extent to which host-country institutions actually did represent binding constraints on local management. For example, at *ITco* a European manager was trying to introduce a regional web-based recruitment tool, which met with resistance from German management. Her problem was in understanding the extent to which this was due to legal constraints:



And I was speaking to my boss about it this week and he said we'll just go there and we'll just sit down in front of the HR leaders and tell them. But you see I don't want to do that until I've really investigated the implications of some of these changes. ... Germany doesn't record ethnic [data], but the works council might look at that and think there's something a bit secret going on here. I know it sounds a bit odd but if you think that if you want to find fault in something and that's what the works council by and large want to do, they want to protect the nationalism [sic], so as soon you say there's something European, the works council try to sort of really critique it, then I want to eliminate possibilities where the works council might get a bit twitched. (European HR manager, ITco)

### Conclusions

The centralized pattern of HR policy in our case studies confirms the findings of other studies of US MNCs and we argue that this can be traced back to features of the US business system which fosters the development of standard policies across different business and geographic operations. With the exception of *Business Services*, centralized policies usually build on domestic policies, supporting the notion that US MNCs are relatively ethnocentric. In recent years HR policies seem to have become even more standardized. The growth of European integration has to some extent strengthened the role of the region at the expense of both national subsidiary and corporate headquarters, but a parallel dynamic has seen the region lose out to increasingly important international product divisions or business units.

Although all sample firms have elaborate bureaucratic, personnel and social control systems, subsidiaries can to some extent 'negotiate' the extent of their autonomy. This reflects the fact that subsidiaries have specific power resources that they can leverage. First, the general balance is shifting in their favour as an increasing proportion of operations in US MNCs are located outside the USA. Secondly, subsidiaries are located in 'national business systems' with their own institutional arrangements, including laws and customary behaviour which subsidiary managers are in a good position to 'interpret' to head office. This gives them scope to resist some central initiatives on the grounds they are incompatible with the institutional framework. Given that the German institutional environment is much stronger than the British, this seems to apply in particular to the German subsidiaries. Thirdly, subsidiary managers are often 'co-opted' into the international HR policy process by virtue of having HR responsibilities above national level, usually within the region. Finally, international policy-making teams, which are often virtual, provide subsidiary managers with opportunities to influence global policies. Turning from the processual issue 'centralization of decision-making' we now discuss each of the three substantive issues.

### b) Collective representation and participation

When discussing the US business system earlier we pointed out that US industrial relations are characterized by deep-rooted anti-unionism and trade union weakness. We also pointed to the importance of 'welfare capitalism'. This is characterized by sophisticated, often 'paternalist' employment policies that seek to instil in employees a commitment to the goals of the organization and in turn offer them long-term employment and attractive material rewards. Even though some of the defining features, such as high pay

and relative job security, may have weakened in recent years, the heritage of welfare capitalism is still strong in at least two of our four firms. *CPGco* and *ITco* have traditionally been two of the main 'welfare capitalist' companies in the USA. *Business Services* is overwhelmingly non-union in its US operations. Among our case-study firms only *Logistico* has recognized trade unions and high union density in the USA.

It is often argued that the strength of hostility to trade unions on the part of American managers is distinctive (Edwards, 1986; Hollingsworth, 1997), and that this influences the management style of US MNCs abroad (Innes and Morris, 1995; Muller, 1998). In this section we therefore first discuss the extent to which trade unions are recognized in the German and UK subsidiaries and whether this is influenced by US headquarters. As institutional pressures for collective representation and participation are particularly strong in Germany, we then analyse the extent to which this leads to the adaptation of global policies.

### **Collective representation in the UK and Germany**

The open and deregulated nature of the British business system means that there are few constraints on the transfer of a non-union, 'pro-individual' model of employment relations by US MNCs. Consequently, US MNCs in the UK have a lower propensity to recognize unions than non-US firms. In contrast, the German business system places severe constraints on the transfer of a unitarist US-type HRM model (Muller, 1999). Nevertheless, some US MNCs manage to avoid the labour-market institutions of collective bargaining and codetermination (Muller, 1998). Furthermore, in both countries they try to minimize union influence where they cannot avoid it (e.g. Royle, 2000). However, non-unionism in US subsidiaries in the UK and elsewhere has not generally been explored in relation to the kind of sophisticated 'union substitution' policies that emerged in welfare capitalist firms in the USA (with exceptions, e.g. Beaumont and Townley, 1985; Muller, 1998).

The case studies presented a mixed picture of the actual practice of union recognition in the UK. *Business Services* has not recognized any trade unions, and whilst *Logistico* is highly unionized in its domestic operations it recommends that potential union expansion should be kept to a minimum, although this does not amount to an anti-union directive. At *Logistico* UK, a trade union agreement covers about one third of operations and was inherited in the rapid period of acquisitions and maintained since then.

*CPGco*, fiercely protective of its non-union status in the USA, had recognized unions in its UK manufacturing plants for decades following a union campaign in the 1970s. These contrasting approaches to trade unions in the USA and the UK came about at a time when *CPGco*'s operations were very much centred in the USA and the company was marked by a relatively low degree of global integration of production and product markets. The focus of attention in terms of retaining its non-union status was therefore directed much more heavily towards domestic operations than foreign subsidiaries. Since union recognition in the 1970s, UK management has become heavily involved in bargaining and consultation with a strong shop steward organization. Having developed skills in working with unions and a good working relationship, subsidiary management saw no reason to change its policy radically when the company began to integrate its production operations on a global scale.

The case of *ITco* is worth mentioning, as the need to enter the outsourcing market had the potential to challenge the subsidiary's non-union ethos. This is because the operations *ITco* has taken over have often had high union membership:

*ITco* UK is intent on staying non-union [but] what has happened of course since they've brought people in from other companies [is that] they've brought in trade unions, and they've been willing to do that. Now that would not have happened, certainly it could never have happened easily ... [in the past]. The company believed ... that people couldn't get a better deal with trade unions .... It didn't really want to encourage an independent force. Then suddenly this gets pushed to one side by market conditions, because it would be quite difficult to service a number of companies unless you took in their labour force, and their labour force was already trade unionized anyway. (UK manager, *ITco*)

However, *ITco* UK has come down very heavily on any moves towards union recognition (Tempel *et al.*, 2004).

In contrast to the UK operations, employee representation and participation is much stronger in the German subsidiaries. All four sample firms have works councils. However, at *Business Services* this covers only support staff, and not consultants, who constitute about 80 per cent of employees. This is due not only to the nature of the consultant workforce, which is university educated, highly career oriented and occupationally mobile, but also, as pointed out by a German HR manager, to sophisticated HR policies:

We have ["]best place to work["] initiatives. We strive to be an employer who is attractive [so] that consultants want to join us and stay with us. And that is more than any works council could offer. When the company, all the HR people and all the senior managers are daily putting a lot of effort into finding ways to make this an attractive place to work, then they are doing exactly the same as what a works council would do.

In all four US firms decisions on employee representation policy were devolved, but they were taken within a framework of assumptions significantly influenced by US concerns about unions. In the sample firms there was a clearly understood (although often unspoken) corporate strategy of avoiding unions where host contexts permitted it. A senior headquarters HR manager of *CPGco* made this point explicitly:

Our corporate position is that we believe it's better for the company and better for employees to be able to deal directly. So you take that as an overall position. Given that, we recognize that in a lot of countries in the world the tradition is to have some other sort of representation for employees.

At *Logistico* Germany we were told by management that when the first works councils were set up in the late 1980s there was a certain amount of irritation on the part of company headquarters in the USA and questions were asked about what a works council is and why it needs to be informed of matters like new pay systems and working time. According to the works council member interviewed, there were rumours among management that '*if a works council had been set up, then management had failed in the eyes of the Americans ... failed meaning that was the end of your career*'. A similar view emerged from an interview with a *Logistico* HR manager:

Works councils are set up if employees want them, if they hope for some advantages by having a works council. If communication between management and employees is good, which is fundamental, there are usually no advantages. Normally, the reason why employees want to set up works councils is because of management mistakes. If a works council is set up, we must ask ourselves what we have done wrong. We can't prevent them. But it is better to be aware of problems before things get that far and to try to solve them through communication.

Despite this strategic preference for non-union operations and despite the sometimes fervently anti-union opinions of headquarters managers and US expatriates, little attempt was made to impose policies on subsidiaries. British and German managers generally reported little direct pressure from the USA to adopt particular policies on employee relations issues. As a UK respondent at CPGco argued, the US company has '*a tremendous fear of unions [but] they do not try and impose it elsewhere*'. Nevertheless, there appears to be a difference in attitudes because the unions in the German subsidiary have more impact on the firm's desired HR policies than in the UK.

*Logistico* is again the most striking example. Although today there generally seems to be a cooperative relationship between management and works councils, management strongly opposed the initial establishment of these bodies. The works council member interviewed was involved in calling the first works meeting (*Betriebsversammlung*) which according to the Works Constitution Act can take place during working time without loss of pay. He received a letter from a law firm initiated by *Logistico*'s German labour relations department threatening him with a 500,000 DM fine or imprisonment if the works meeting took place. At that time, he was quite inexperienced but consulted a lawyer, who advised him that this threat was not legal. Eventually the works meeting took place with busloads of employees from all over Germany coming to attend. This incident echoes Royle's (1998) observation of McDonalds' hard-line avoidance strategies in Germany.

Nevertheless, as this example also shows, at least in Germany the scope for avoidance strategies is limited and thus US MNCs have to work with the system. As a senior German *ITco* manager suggested, '*HR and codetermination policy here, and this is an advantage which we have, is not done in a dogmatic way but is solution-oriented. We consider not only the necessities of the business but also employee interests and we try to come to an agreement which is reasonable for both sides.*' A similar assessment was made by a *Logistico* works council member: '*[Logistico] has now realized the advantages of having a works council, at least in our case. In the past, the attitude was that anyone who criticized [Logistico] was inherently bad. Now they have realized that criticism can be positive and that people are willing to contribute.*'

Today, *Logistico*, instead of opposing works councils, uses the system to its own advantage. In contrast to local works councils, which are often critical of management, the group works council at the company level is dominated by supervisors and other managerial staff:

The attitude of management was that if a group works council is to be set up, then we want to shape it ... They try, unofficially of course, to influence the election propaganda and election strategy in such a way that people who support their views are elected. The group works council is controlled by [*Logistico*]. Some of its members have been trained in America. They have been very well trained and receive a lot of support. (German works council member, *Logistico*)

Such a calculating, pragmatic approach could also be observed in the UK subsidiaries. At *ITco*, *Logistico* and *CPGco*, where unions existed, relations with them were generally peaceable and sometimes harmonious, and there were few instances of current conflict.

As one would have expected, at least in theory, German labour-market institutions provide a potentially stronger barrier for the global standardization of HR policies than UK institutions. We observed this in all of the German subsidiaries with the exception of *Business Services*. One example concerns redundancies, in relation to which the law gives employee representatives a relatively strong position to delay downsizing and to encourage firms to rely on early retirement and voluntary redundancies rather than dismissals. This was reported not only at *CPGco*, but also at *ITco*, where a workforce reduction of 40 per cent in the early 1990s was achieved without compulsory redundancies. As with other companies in Germany, voluntary early retirement and redeployment was the preferred method, supported by the works council. As budgets were more important than headcount at *ITco*, an unpaid increase in weekly working hours as a result of a new company collective bargaining agreement was used by German managers to argue that half the labour cost reduction requested had already been achieved. According to the HR manager and the works council member interviewed, *ITco* Germany still follows an employment-security policy. The main change as compared with the past is that a specific job position is no longer guaranteed. Various training programmes and initiatives have been deployed to increase the long-run flexibility of employees, alongside a clause in the company collective agreement which grants employees the right to training. As a result of redeployment combined with natural wastage, *ITco* did not have to dismiss employees in the latest round of cost savings. In contrast, UK managers indicated that the firm's previous policy of employment security is no longer in place.

In the past, the relationship between management and works council in *CPGco*'s German subsidiary was often highly conflictual, particularly in the manufacturing sites. As a result, central initiatives could not be implemented in Germany, or only with substantial delay. *'We stuck out like a sore thumb often enough because of all the policies which the works councils prevented from being implemented. The rest of the world had no problems, but we had to report [implementation] problems'* (*CPGco* HR manager). This applied to production in particular, where, for example, teamwork could not be implemented due to works council resistance. At the time of our interviews the works council was trying to limit working hours, to protect the use of German data for the global SAP R/3 system and to regulate merit increases. Turning to *Logistico*, one of the UK managers interviewed suggested that works councils make the German operations less flexible and prevent the introduction of some practices that have been implemented without any problems in the UK. Thus there was some evidence of actors in Germany successfully negotiating compromises to corporate influences.

However, at *Logistico* we also observed that works councils, instead of opposing global policies, can also foster their adoption. *Logistico* USA has a two-week induction training programme for new drivers. In the plant of the interviewed works council member, this induction training has been regulated by a works agreement. According to him, *'[Logistico USA] has an induction training programme for new employees, which is very good ... We copied the American training programme in the form of a works agreement. They [management] couldn't object. It would have been embarrassing for them if they had said "no, we don't agree to that" '*. The works council is now campaigning for the induction training to be extended because the job of driver has become much more



complicated due to the greater use of information technology and more extensive initial on-the-job training would be a way of reducing the high turnover rate amongst new employees. In contrast, in the UK the induction training programme was an example of a global policy which local management 'cherry picked': *'The way we train our drivers is based on the way that the States train their drivers, but we took the initiative locally in the UK to do that ... we stole, if you like, the US programme and anglicized it and implemented it because we could see the benefits of it. We told region [Europe] that we were doing it and we suggested to them that they should try and promote it in other countries'*.

The previous examples have shown the impact of codetermination: subsidiary management must justify something and present a business case. According to a CPGco HR manager, *'The works council requires management to be good. We have often had US visitors and have said: "If one is required to present an issue to the works council one has to think it through twice and then it gets automatically better"'*. Using a similar argument, a HR manager at ITco told us: *'One advantage of codetermination is certainly that issues are being discussed intensively and you give it quite some thought before putting it into practice. Sometimes it takes more time before you implement it, but if you put it into practice it works better.'* Similarly, a works council member pointed out: *'When the Americans come over and discuss codetermination with me, then they are all enthusiastic. Because codetermination means co-designing and co-responsibility and it is therefore not only a one-way street.'* As Box 3 illustrates, this is not a new phenomenon.

### **Box 3** **Board level codetermination**

The German advisory board changed its shape in the early 80s and, wait for it, two union members had to take their place on the supervisory board, two union members had become members of it. These were outsiders, by the way, not ITco employees, two outsiders ... two union officers had to become members, and the Germans were worried about that .... but they certainly would have briefed [European headquarters] and [European headquarters] would certainly brief to the States and the States would be watching with considerable interest. Well, whether this was German propaganda or what, I don't know, but the story of the first meeting is, they all assemble and the first item on the agenda is actually the results of ITco in Germany .... And the results were not very good, which is unusual for ITco Germany, which is pretty successful. So this is shown, a presentation takes place, the results aren't very good, and the union, one of the union officers says I would like to make a point. Everybody looks a bit sort of cowering! He says that 'you understand that this is not acceptable, the results must be better!' [laughs] There was a sort of air of relaxation over the meeting. This is their story – and they all realize that actually the union members have the same interests and actually are quite interested to help them get better results, not actually get on the defensive. (Retired UK manager, ITco)

Nevertheless, codetermination means that it is more difficult for German management to comply with central initiatives. According to a CPGco HR manager, *'Management is under strong pressure – because there is an expectation that codetermination does not cause*

any delays. “This is your task, these are the targets and at the end of the year you have to be at this point”.’ Similarly, the German HR manager interviewed at *ITco* suggested that codetermination is generally not accepted as a reason for non-compliance by headquarters:

This does not mean that it is accepted, that we go our special national way just because of that fact and have an easy life. [Headquarters] still expect that we implement our agenda even under these exacerbated general conditions. In other words: codetermination is no excuse for not achieving our goals. We just have to implement it in an adequate manner. Maybe this might take a little longer.

Employee representatives also feel this pressure, as management has threatened to transfer jobs abroad (*CPGco*, *ITco*) or to subcontractors (*Logistico*) in order to enforce compliance. At *CPGco* we were told that the difficulties caused by employee representatives have created a bias in the US headquarters which has made it difficult for the German subsidiary to attract investment. At *Logistico* two plants were outsourced to subcontractors because works councils had been set up. Employee representatives at *ITco* also pointed out that centralization within the corporation makes life more difficult for them:

It has changed insofar [as] we bargained directly with the German management more often in the past, whereas today it has to be synchronized at least with [European headquarters] or even with [corporate headquarters] to bring harmonization effects ... into accordance with these national requirements. Our work has become more difficult. In the past we had sufficient time for discussion. This has been shortened drastically because in many countries managerial decisions can be executed directly and do not have to be negotiated with the works council. (German works councillor, *ITco*)

### Conclusions

The impact of the home country shows up in the area of employee representation. The American roots of the sample firms are evident through a strong preference for union avoidance wherever possible. While this does not take the form of a formal central policy, the parent company’s wishes are communicated unambiguously to managers in both countries. Anti-unionism shaped the perceptions and frames of reference of German and UK managers. Generally, however, parental anti-unionism was felt only in a diluted form in the subsidiaries, where it was interpreted in a moderate, pragmatic manner and harnessed to local managements’ own agenda. *ITco* and *Business Services* were committed to non-unionism in the UK, but in those subsidiaries where unions existed, as long as British managerial pragmatism delivered the goods, there appeared to be little overt pressure for a more proactive anti-union stance in the subsidiaries. However, one reason for this may be the lower impact even recognized trade unions have in the UK. As the German cases suggest, works councils can force firms to adapt global policies or can at least delay their implementation. This can create friction with European or US headquarters.

German management seems to react in four different ways. First, where works councils do not yet exist, their establishment is avoided. Secondly, local management exerts pressure on employee representatives not to delay or block global policies by threatening to shift employment abroad. Thirdly, it tries to foster the election of employer-friendly works councils. Fourthly, as works councils cannot be decertified, German managers not

only have to manage them effectively, but also to communicate their benefits to a higher level. To European and US headquarters a business case for codetermination is made, to the effect that, although employee representatives may delay implementation initially it will be facilitated later.

### **c) Pay and performance**

American MNCs have a long history of innovation in the area of pay and performance management in Germany and the UK. This includes early moves towards performance-related pay, the use of salary surveys and various forms of profit sharing. The use of such practices can be traced back to the 'free market' individualistic assumptions of the employment relationship in the USA and the relative freedom of US (non-union) firms to experiment with pay policies.

The management of pay and performance is perhaps the HR area in which worldwide policies and guidelines are most widespread in the case-study firms. Even where subsidiary managers have relatively wide autonomy in other areas, grading systems and the management of both collective and individual performance-related pay and bonuses appear to be tightly controlled by headquarters. One reason frequently given for this is the increasingly globalized nature of internal labour markets within the companies. As a result of the greater number of contacts between employees in different countries, cross-national variation becomes more obvious. Apart from the dissatisfaction this may cause among employees, it is seen as necessary to have global grading and performance management systems in order to permit the proper functioning of international internal labour markets for managers and those with high-level technical skills. Furthermore, systems of performance control adopted by MNCs provide a powerful mechanism with which to monitor and control foreign operations (Marginson and Sisson, 1996). In some cases they also enable corporate management to persuade local workforces to accept changes in HR practices through the reward of future investment or the threat of divestment (See, for example, Mueller and Purcell, 1992; Muller-Camen *et al.*, 2001).

Given the tight control and standardization in this area, tension between the pressures for uniformity and host-country autonomy can be expected. Therefore the extent to which global policies have to be adapted in the British and German subsidiaries may vary: the German system of collective bargaining in particular (Muller, 1997) could present an obstacle for the introduction of global practices. Although all four sample firms emphasize performance-related pay, there is great variety in wage determination and performance appraisal. Therefore we analyse each company separately.

#### **Adaptations to Itco's global pay system**

*Itco* changed its pay system radically in the mid-1990s. Until then the corporation relied on a very detailed and inflexible single point factor system that was administered by compensation managers. This included over 5,000 positions that were allocated to 24 salary grades. The new system was based on just three factors (skills, leadership requirement and job scope) and ten broad bands. Line managers and not HR specialists have been responsible since then for assigning their employees to the bands. As required



by law, there is some works council involvement in the allocation of individuals to bands in the German subsidiary.

The grading system is linked to a system of performance appraisal. This was introduced at the same time, is uniform globally for all employees, and based on performance against agreed objectives under a number of broad measurements, namely how the individual contributes to *ITco's* overall strategies, how the individual performs relative to defined goals and how the team or group engages to achieve the goals or strategy. In terms of pay determination, the system is based on a forced distribution with defined percentages of the payroll increase for each category of performer. Managers are 'actively required' to place only 10 to 15 per cent of their subordinates in the highest category 'A', 60 to 70 per cent in 'B', 10 to 28 per cent in 'C' and 2 to 5 per cent in 'D'. The highest performers receive one-and-a-half times to twice the average salary increase, B employees the average, those in category C 0.6 times the average and those in 'D' do not receive any increase. Finally, a variable pay element of 10 per cent is part of the system. The size of variable pay funds depends on *ITco's* performance. If the targets set by the company are 100% achieved, the employees get on average a bonus of 10 per cent. Individual bonuses are directly linked to the forced distribution appraisal explained above: for example, an employee with the highest rating receives two-and-a-half times the bonus of an employee with a low rating.

The pay system was developed at the European level in 1992/1993 and then in 1994/1995 was adapted by the corporation. In turn, the grading system of the European proposal was very much influenced by the German subsidiary, which at that time was negotiating an innovative company agreement (see below). The German subsidiary had partly abolished the analytical job evaluation system foreseen by industry-wide collective bargaining (with the agreement of the collective bargaining parties) for some employees as early as the 1970s. It had also introduced a three per cent variable pay element. In the UK, variable pay has been in operation since the 1960s and the British subsidiaries' Management by Objectives system served as the basis for the performance-related element of *ITco's* new global pay system. According to one German HR manager, *ITco* Germany was the first European subsidiary to introduce the new global system. Although the pay system is a worldwide standardized tool, differences do exist: for example, not all European subsidiaries have variable pay and not in all is it 10 per cent.

Most German employees are still covered by multi-employer collective bargaining which basically guarantees employees a high sectoral minimum wage (Muller, 1997). If a firm is covered, it is not normally possible to apply a performance-related pay system such as *ITco's*. Until the early 1990s, *ITco* was part of the metalworking industry collective agreement and thus had to deal with the most powerful German union, IG Metall. However, *ITco* used the reorganization of its German operations into several legally independent firms in 1993 to leave the metalworking employers' association, apart from for its production sites. Although the main reason for this move was the introduction of the 35-hour working week in this industry, pay inflexibility was also a factor. According to the managing director of the German operations at that time, 90 per cent of annual increases were determined by the industry-wide agreement and only 10 per cent was left for individual incentives. Works council members forced management to negotiate a company-level agreement, although this was with a more moderate trade union based in the service sector. This agreement, which now covers the majority of *ITco's* German workforce, is unlike the company-based agreements in some larger German firms, such as Volkswagen, in that it only specifies minimum rather than actual terms and conditions.

The implication of this is that each formally independent business unit can negotiate its own terms and conditions with its works council. The most important substantive aspect of the company agreement was a general increase in the working week from 36 to 38 hours, with significant flexibility to impose longer hours. As a result, German employees at *ITco* now have longer working hours than their colleagues in the UK and France.

On a superficial level the same pay system operates in *ITco's* German and British subsidiaries. Nevertheless, our research indicates that the German works council has been able to negotiate some important adaptations. First, the UK and most other European subsidiaries financed the introduction of a 10 per cent 'variable' element to pay either out of decreased merit budgets or pay cuts. The German subsidiary abolished such pay components as the Christmas bonus, overtime pay and generous travel expenses in the collective bargaining agreement to finance the bonus. This solution was favoured by the works council and, according to one works council member, *ITco* subsidiaries in other countries that financed it out of pay cuts caused discontent among their employees during years when business performance was poor. Finally, there is a provision in the company agreement which, irrespective of individual and company performance, guarantees employees about one third of the 10 per cent bonus.

Secondly, in the UK the forced distribution on which the performance-related pay system is based is used to identify candidates for redundancy when downsizing. In contrast, in the German case there is a collective bargaining side-agreement which foresees training for employees who did not receive an increase. The following quote from a senior works council member also suggests that the German subsidiary is taking a more lenient approach:

Of course, we [works council members] ... have given it a lot of thought. It was important for us that nobody should be worse off. That means, when we are talking about performance-related remuneration, there is a very small number of employees each year who are not included in salary increases. There are measures which are covered by a works agreement aimed at helping them [the under-performing employees] back to better performance. And if they perform better, they will be included in the next salary increases. These are measures such as further training, coaching, transfer, etc. And within this system you can make up a missed salary increase in a very short time.

In Germany, there was a series of adaptations in line with the wishes of the works councils and the constraints of the collective bargaining system. In the UK, in contrast, there were fewer such adaptations, but the informality of the operation of some of the elements of the pay system meant that there were opportunities for local actors to depart from the corporate guidelines. Thus, in contrast to Germany, adaptations to the system in the UK subsidiary seem to occur in a rather informal way. Some of the UK employees interviewed argued that once they got to understand the system it was possible to manipulate it, for example by setting goals that were relatively easy to achieve, since their managers did not have the specialist IT expertise to realise this. Another way in which employees sought to maximize their opportunities in the appraisal system was to choose an ally to provide feedback.

Nevertheless, besides institutional constraints, an adaptation to the global or European pay system may also be demanded by local management, as the following quote from a UK-based HR manager who is designing European-wide IT solutions for HR problems suggests:

The Germans have given me two pages full of differences between their global variable pay and my tool and it's all down to engineering. Nothing they've asked for is fundamentally wrong, it's down to the fiftieth degree of precision and detail, you know, so whereas we might say that where you are at the end of the year is where you get your variable pay paid, because sometimes it's variances by business, you know. The people in *ITco* UK accept that, and if somebody changes in about the third or fourth quarter and their previous business did tremendously well, and their new business hasn't done so well and their variable pay is impacted, there's manual intervention and the managers both agree that in fact the bloke has been disadvantaged, let's give him the variable pay from the previous thing and this affects 5% of the employees – there might be a dialogue about them. Well, Germany's mechanized all of that! Right? So this is mechanized to handle the 2%, the 3%, the 4%, the 5%, and that's what I can't do. Certainly not initially.

### **The impact of Logistico's global pay system**

In contrast to *ITco*, a standardized system of performance management exists only for managerial staff at *Logistico*. With regard to operational employees, individual countries have more scope to adapt. Managerial pay at *Logistico* (applicable from supervisor upwards) consists of several components. First, there are global grading structures with the aim of coordinating the grading of similar job families using Hay. Secondly, there is a performance-related component. The overall budget for performance pay is set by the salary committee at regional level and is based on the financial performance of the European region. Recommended country budgets are then defined based on economic indicators. Performance-related pay is based on a so-called 'quality performance review', a globally defined tool which can be downloaded from the Intranet. Yearly objectives are reviewed after six months and evaluated at the end of the period. The quality performance review is based on a review of critical skills. There is a globally defined broad-band pay structure. As yet there is no forced distribution, but rather broad guidelines:

The pay scales, the minimum, midpoint and maximum for each grade, would be reviewed along similar guidelines and so you're given broad guidelines, budgetary guidelines, and then provided that whatever you do is within those guidelines, you then would operate that within the country. (UK HR manager)

Thirdly, there is a share ownership programme for managerial employees which was established in the 1930s and applies globally to all managerial employees from supervisor upwards. Each year a certain percentage of profits is allocated to it. A global policy defines the bands and the amount of shares allocated to each hierarchical position. The programme is performance-related and involves an annual nomination process. Depending on whether expected performance has been achieved, managerial employees are either nominated or not: according to all German interviewees, in practice it rarely happens that managers are not nominated. The share ownership programme represents a significant element of managerial pay: for example, it can make up 25–30 per cent of a supervisor's salary. Several interviewees argued that it plays an important role in the very low fluctuation amongst managerial staff in *Logistico*.

Overall, we did not detect any deviations from this global system in the German or UK subsidiary. However, pay for non-managerial staff in both countries is determined by collective bargaining. In the UK this excludes clerical staff, for whom salaries are individually determined and linked to performance. In Germany, in the early 1990s *Logistico* voluntarily joined the employers' association and since then has been covered

by multi-employer bargaining. A major reason for this move was that it lacked information about the pay dynamics in the industry and wanted to maintain its pay differential to its competitors. By participating in the collective bargaining committee, the company has access to information about planned increases in wages and can increase its non-managerial wages accordingly and before collective bargaining begins. According to management, *Logistico* is regarded as an outsider in the employers' association and plays a 'reserved and quiet role', seeking primarily to gain information. However, as it aims to pay at the 75th percentile within the group of immediate competitors, collective bargaining does not in practice restrict the use of performance-related pay.

In Germany, non-managerial employees are in effect paid an hourly wage plus overtime. Although performance measures are established by the global work measurement standards, performance is not linked to remuneration as this is not allowed by law in the transport sector. However, there is a so-called sales lead programme, which applies in Germany and throughout Europe, where drivers are rewarded with incentives if they acquire new customers on their rounds. In contrast to Germany, drivers in the UK can receive a bonus depending on their performance as measured against the global work measurement standards, which can make up a considerable part of their salary:

There is a recognized [*Logistico*] work measurement system that would operate in different countries, but the way those measures might be used would vary from country to country. So we have a fairly standard way of approaching [the] driver bonus in the UK, we have a measured day and then you'd measure performance against that measured day, but in another country those measures might be just used for internal management purposes and not have any relationship with pay whatsoever. Or there might be a much [smaller] element of variable pay in a different country compared to the UK. (UK manager)

### **Business Services**

There is a global framework of performance management at *Business Services* which can be adapted to local conditions. The extent of global standardization versus localization depends on hierarchical level. Payment for associate partners and partners is handled globally and decisions cannot be changed at regional level: *'if I make a decision for my associate partner in the United Kingdom, he is going to get [a] 10 per cent bonus ... The UK is not going to tell me you can't give him 10, it has to be 9'*. For hierarchical levels below associate partner, there is more local variation. Payment is underpinned by a global framework linked to the global assessment process. There is a global performance ranking system, but how this translates into pay increases is decided at the level of the geographic unit, depending on market conditions:

The way you are ranked, for example the 20 per cent in the top category, that is common across the globe. How that translates into pay is dependent on the geography and some geographies have broad banding, others have the points system that we [the UK] have, it just depends very much on the market. (UK HR manager, *Business Services*)

A points system operates in both Germany and the UK. Payment is made up of three components. The most important element is individual performance. This is based on an annual assessment which has a standard form (developed in the UK) and a standard timetable throughout the company. This assessment serves to determine the performance mark that is awarded to an employee and which determines whether he or she can be

promoted to the next level. Performance is evaluated in terms of behavioural criteria which are different for each career or hierarchical level. The employee's career counsellor consolidates the ongoing appraisals: in contrast to project managers, this person is permanently allocated to an employee. If performance is not good enough, this is communicated very clearly to employees.

The second element is local market conditions. These are established through benchmarking against other consulting firms and, for example, investment banks, depending on where the company is losing its employees to. Traditionally, there was no variation in this element of pay across the market units within a geographic unit, meaning that employees in the financial services market unit were paid the same as employees in the government market unit. At the time of the interviews, proposals to move towards a more variable pay structure had been designed at global level and local HR teams were looking at how these proposals would translate into payment models in each geographic unit. One of the arguments for moving towards a more variable pay structure is that it would allow more variation between market units. The third pay component is hierarchical level. *Business Services* enjoys considerable flexibility in implementing the global payment framework in Germany, as its German operations, similar to most other consultancy firms, are not covered by collective agreements. However, restrictions on the introduction of global payment policies have come from another direction in Germany, from the employees themselves. One interviewee reported that global proposals for a more variable pay structure created a lot of resistance amongst consulting staff in Germany but also in Switzerland and Austria:

It aimed to produce large differences in pay for performance, i.e. that top performers would receive much higher pay than good or average performers ... which was something which we had not had in such an extreme form before. There was a lot of resistance in Germany, and in Austria and Switzerland, because it goes against our culture. ... The attitude in Germany is that if someone performs very well, they should be paid very well. But someone who performs well should also be paid well. We didn't want to have such large differences; we found them just too blatant. (German HR manager, *Business Services*)

As a result, the policy was introduced in a weaker form and was then adapted considerably a year later. In contrast, the pay proposals met with very little resistance from the company's British workforce as they were very much in line with local practices.

### **Moves towards standardization at CPGco**

In comparison with the other three sample firms, *CPGco* has had the least standardized global pay and performance system. A combination of individual and business unit performance determines take-home pay at *CPGco*. It calculates pay increases for managers using a formal scheme in which a certain proportion of the increase is related to individual targets, but a larger percentage to business unit and corporate goals. Variable pay components are bound to goal achievement and account for between 18 and 30 per cent of total pay for top management in both the UK and Germany. Whereas in the past individual goals were predominant, today collective European goal achievement is more important. A further global element is a general stock option scheme for all employees where each employee in 1999 and 2001 received 100 stock options. Nevertheless, except for the stock options, in both countries the system described above applies only from middle managers upwards.



A new global performance appraisal was introduced in 2000. Each manager is assessed on individual performance (target achievement) on an A to F scale and also on the extent to which the corporate values (e.g. leadership, valuing diversity) are implemented (1 to 5). The former is based on a 360-degree feedback appraisal for middle managers focusing on employee, customer and shareholder goal satisfaction. This results in a combined mark. In this way, *CPGco* uses remuneration to reinforce, and sometimes to change, corporate values.

At the time of the research the corporation was discussing linking the performance appraisal directly to merit increases and to base it on a forced distribution. The German HR manager interviewed opposed this and also suggested that the system of target setting was always controversial. Nevertheless, this does not mean that the German subsidiary does not follow headquarters' wishes to make pay more performance-related for the majority of the workforce. In theory, there is a potential clash between such demands and the German system of multi-employer collective bargaining. However, in recent years *CPGco* Germany has moved all of its operations from the metal industry agreement to a sub-agreement of the chemical industry. A major advantage of this move for *CPGco* is that the minimum wage for a particular position set by the collective bargaining agreement is much lower, thus increasing pay flexibility and leaving more room for performance-related pay. Furthermore, as any employee whose salary is significantly higher than the highest wage defined by the collective bargaining agreement is an exempt and as this is much lower in the new agreement, the percentage of non-tariff employees or exempts has substantially increased to 70 to 80 per cent of the workforce in the German headquarters. Hence, for the majority of the workforce, annual salary increases are no longer guaranteed. Even more important is that due to this change working hours for tariff employees have increased from 35 to 37.5 hours. Furthermore, exempts, who are nowadays the majority of the workforce, are expected to work overtime without any extra compensation. An additional advantage of this move from the employer's perspective is that *CPGco* is the biggest employer in its new employers' association and thus has a bigger impact on bargaining outcomes. Nevertheless, at the time of our research in Germany not all managers (particularly those who were covered by collective bargaining before) had variable pay. However, as there is strong pressure from headquarters on German HR management to have a global or at least unified European system of variable pay, this issue was discussed with employee representatives.

### **Conclusions**

The management of pay and performance shows a high degree of imposed uniformity. While the details of pay and grading systems may vary slightly from one country to another, all sample firms try to ensure that the essential parameters of pay and performance management apply globally. Although the wage determination and appraisal systems differ between the four MNCs studied, a common trend is their emphasis on individual pay-for-performance. In all four firms, poor performers might not only not get a bonus, but also not receive a merit increase. *ITco* and *Business Services* ensure adherence to this policy by linking pay to a forced distribution appraisal.

Although some of the British employees interviewed suggested that there are ways to manipulate the appraisal, generally we observed little resistance to the introduction of central pay policies or any significant deviations. This was different in the German subsidiaries. In all four firms pay practices differed at least to some degree from global policies. However, this is not primarily due to multi-employer collective bargaining.

Instead, the examples of *CPGco*, *ITco* and *Logistico* show how MNCs can use the space the system offers to reduce its impact. At least as important as collective bargaining was codetermination. For example, works council members at *ITco* used company-level bargaining to ensure that poor performers got at least a small bonus and that training helped them to improve their performance.

Besides these two institutional factors, the interviews suggest that German employees may have reservations about too much emphasis being placed on individual performance-related rewards. At *Business Services*, where collective bargaining and codetermination had no impact, this antagonism led to the adaptation of a global policy and at *CPGco* it slowed down the implementation of a new wage determination system. However, despite these observations it is interesting to note the extent to which pay in the US MNCs is still performance-related. This differs markedly from practices in German firms (Muller, 1999; Kurdelbusch, 2002). Nevertheless, an analysis of longitudinal data from the Cranet-E survey of European HRM suggests that, similar to other European countries, over the 1990s performance-related pay has become more widespread in Germany (Muller-Camen *et al.*, 2004). Thus US MNCs may still be different, but are not as exceptional and no longer provoke such strong resistance as in the past. In other words, changes in the host-country business system have reduced institutional distance from the home country.

#### **d) Workforce 'diversity'**

A striking characteristic of the four companies discussed here, as well as the other US MNCs surveyed, is their emphasis on workforce 'diversity'. This reflects the growing importance of this issue in their home country, which is due to two developments. First, legislation was passed in the 1960s to outlaw discrimination on the basis of age, disability, gender, national origin and race. Today, this legislation, which basically affects all HR functions, has become a decisive institutional constraint for management in the USA (e.g. Dessler, 2003). Secondly, instead of just complying with the law, US corporations increasingly accept a business case for diversity management. Changing workforce demographics, which have increased the proportion of non-whites in the labour market and are leading to an ageing of the workforce, alongside the feminization of the labour market, necessitate policies that include and fully utilize a more diverse workforce.

Similar to the institutionalization of 'health and safety', this has led to the inclusion of diversity considerations in corporate values and a broad spectrum of domestic diversity policies, including leadership programmes, recruitment and retention systems, career development, the promotion and management of high potentials, community relations and supplier relations. A wide range of structures have been introduced to implement diversity programmes, such as target-setting and monitoring; standardized training programmes; 'affinity groups' for particular social categories, such as women or gays and lesbians; and diversity 'councils' at different organizational levels.

Germany has been slow to consider diversity management practices (Muller-Camen and Krüger, 2004; Wächter, Vedder and Fühling, 2003). Where these practices exist in German companies, they often cover only gender and thus appear merely to be selling '*Frauenförderung*' (equal employment for women) under a new name. Particularly in public sector organizations, representatives promoting equal opportunities for women

have a relatively strong position and might wish to prevent the introduction of a broader diversity concept (Fühling, 2003). In the UK, diversity management is better known than in Germany. However, UK scholars and companies tend to put more emphasis on top-down state-enforced equal opportunity. There is thus greater emphasis on enforcing existing anti-discrimination legislation than on developing a more comprehensive diversity management concept from the bottom up (Noon, 2004).

In this section we analyse the extent to which the US MNCs studied have transferred diversity management practices to their British and German subsidiaries and whether this has met with any resistance.

### **Diversity in British and German subsidiaries of US MNCs**

Given the increasing importance of diversity management in the domestic agenda and the tendency of US MNCs to extend domestic HR policies globally, it is not surprising that since the 1990s, US companies have begun to transfer diversity policies to their foreign subsidiaries (e.g. Egan and Bendick, 2001). Our case-study firms are no exception. *CPGco*, for example, is one of the leading companies in the USA in terms of diversity management and is aiming to become a global leader in integrating diversity into the business. It has an elaborate global diversity management structure with a chief diversity officer responsible for global diversity policy, global employee diversity networks, global diversity awards and the 'valuing diversity' aspect of the periodic global staff opinion survey. Subsidiaries have to establish diversity targets and to collect and report diversity metrics. Finally, achievement of diversity targets has been incorporated into the performance management process for senior managers throughout the corporation, and variable pay has in principle been affected by performance on diversity issues.

Although in the sample firms the global policies and systems for managing diversity did not differ from those developed domestically, there was one important difference. Whereas programmes in the US usually target various groups, the focus in the UK and German subsidiaries was clearly on gender, although there was some focus on ethnic minorities in the UK. A European HR manager from *ITco* stressed that this is partly because of the difficulty in tracking data on ethnicity and disability in many European countries, meaning that the company's focus on these groups was limited to training staff to be sensitive to the issues raised rather than monitoring the composition of the workforce. Although the concept of equal opportunities for women is not new for British and German firms, US MNCs seem to be at the forefront with regard to gender diversity compared to indigenous firms. For example, *ITco* Germany started its first development scheme for women in the 1960s. In 2001, 25 per cent of the German workforce was female; their share of middle management positions was 11 per cent and of top positions 6–7 per cent, much higher than is common in German industry.

Despite the focus being only on gender, the transfer of this US policy created resistance in the subsidiaries. Even where the case for diversity was accepted, as in the encouragement of women into senior professional and managerial positions, there were concerns at the methods being promoted by international diversity policy. Thus several UK managers were sceptical about the general principle of target-setting which they saw as doing little to remove the real barriers to the advancement of women and ethnic minorities in the company. Targets, particularly for women in management positions, were seen as excessively rigid by UK managers in *CPGco* and not always appropriate to the British context. There was a perceived danger that such targets could violate UK and



EU legislation prohibiting affirmative action, and there was a risk that such targets would have a demotivating impact on male managers. The general pattern of response in the UK subsidiaries was to try to 'negotiate' the terms of policy application in their local context: for example, they could call attention to the legal framework in the UK (and the EU), and interpret the implications for company policy, for example, in respect of 'positive discrimination'. This happened at *CPGco* where head office was frustrated at the slow pace of meeting targets for women in senior posts. When resisting centrally-defined policy, subsidiaries generally accepted that some constructive response to headquarters pressure was necessary, and indeed desirable, but they tried to shape the response to fit local needs and conditions. Thus when European managers at *CPGco* resisted formal quantitative targets for women in senior posts, they proposed a locally more appropriate response to diversity. This involved increasing the pool of women with management potential by paying greater attention to women high-fliers by challenging recruitment agencies to include several women on short lists, and by encouraging networks of women managers.

Comparing the British and German subsidiaries, it seems that the UK affiliates have been better at implementing equal employment opportunities. For example, a UK manager at *Logistico* suggested:

I think the UK is probably closer to the States than it is to the rest of Europe in terms of our development towards diversity policies in that we have internally within the UK from our own initiative developed an equal opportunities policy and implemented it and we do regular training, management training on equal opportunities and that's been because of the fact that equal opportunities law in the UK is much more strongly developed than in the rest of Europe. To some extent we've built on some of the policies and policy documents that we've been able to obtain from the States and it's been based on our own experiences of equal opportunity law ... And so I think we're further ahead in that respect than anywhere else in Europe. I don't think there are any other European countries that have an as well defined equal opportunities policy at [*Logistico*] as we do in the UK.

With regard to *Logistico* Germany other interviews confirm this view. Although its German workforce is highly international, with drivers originating from 39 different countries, there are no explicit diversity or equal employment policies. Interestingly, only gender ratios are calculated and reported to headquarters. When workforce diversity was raised, our respondents at *Logistico* and the other firms tended to point only to initiatives to increase the percentage of female managers.

Particularly at *CPGco* Germany we encountered some cynicism among managers about corporate diversity management initiatives. For example, the HR manager interviewed suggested: *'I would appreciate if our CEO would put a similar emphasis on other issues as he does on diversity. ... From an economic point of view diversity is probably not efficient. ... For me and many of my colleagues there is much too much activity on this issue.'*

The US emphasis on diversity can also help subsidiary managers to enhance their position. At *Business Services*, *Logistico* and *CPGco* local managers challenged the under-representation of non-Americans in the top leadership tiers of their company. The outcome has been that these firms are putting a growing emphasis on 'passport diversity' by, for example, fast-tracking managers of other nationalities.

### **Conclusions**

We have argued that diversity policy in US MNCs is a reflection of a domestic business agenda which is shaped by legislation and the demographics of the American population and labour force. This policy has tended to be internationalized in ways that subsidiaries regarded as inappropriate for the local environment, putting pressure on them to devote more resources to the issue than they felt was justified. There were also instances where headquarters diversity policies conflicted with UK and EU legislative frameworks. Subsidiaries tried to soften the impact by resisting some of the elements of diversity policy, such as precise targets, and by putting more emphasis on support structures to help diversity groups, particularly women. The way in which US MNCs deal with diversity is 'ethnocentric': policies are developed in the domestic arena and when internationalized their form, substance and underlying assumptions are retained, with only minor variations. Despite more emphasis on passport diversity, there has been little 'democratization' of international HR policy-making in these companies. It is still dominated by the USA, with relatively little input from managers from other regions and subsidiaries.

Nevertheless, although the evidence is limited, it appears that the UK subsidiaries are under greater pressure to follow global diversity management policies than their German counterparts. This suggests that corporate headquarters take into account that national contexts are more or less open to diversity management initiatives.

## 5 Transferring Americanness: adapting policy and practice in the British and German environments

This research started from the premise that the behaviour of MNCs is influenced by the distinctive nature of the national business system in which they originate. The empirical findings allow some general conclusions to be drawn about the 'Americanness' of US MNCs, and about the nature of the process whereby Americanness is transmitted to their British and German subsidiaries. They demonstrate a strong headquarters influence on the subsidiaries of US MNCs in the UK and Germany, both on the specific HR issues of pay, employee representation and diversity, and on more 'processual' traits, such as the degree of centralization. We have shown that to a large extent this behaviour can be traced back to particular features of the US business system.

US MNCs tend to operate in a fairly centralized way, managing through standardized formal systems, processes and policies. Our case-study companies are markedly 'ethnocentric' and tend to apply the same approaches to their overseas operations as to their domestic ones. We explained this centralism partly by reference to the traditionally overwhelming predominance of the American domestic market. However, three of our four companies are now highly internationalized and have 40 per cent or more of their workforce overseas. We suggest that the continuing influence of the centre is due in part to the 'organizational capabilities' – the management control systems and policies – that are one of the defining competitive advantages of US companies.

Initially, we expected not only that US MNCs would want to transfer practices to their subsidiaries, but also that the transmission of such country-of-origin influences to subsidiaries in the UK would be relatively smooth, as the British 'liberal market' model appears to provide an ideal site for evidence of 'Americanness', given its many similarities to the US model and the relative absence of institutional constraints that might block the absorption of American practices. However, the findings show that the elements of Americanness are not set in stone but are changeable and adaptable. Importantly, practices are modified by contact with the host environment, even one as similar to the USA as the UK. Compared to Germany, we observed only minor adjustments due to legislation. However, even where legislation is not a constraint, different traditions and structures operate in the British business system, and these often define how American traits are manifest in the UK context. For example, British subsidiaries often applied corporate policy on unions and collective representation in a more pragmatic and accommodating way than the parent company did.

Initially, we expected that, in contrast to the UK, host-country effects would be particularly pronounced in Germany. US MNCs would, for example, need to engage in collective bargaining and accept workplace representation in Germany. This expectation was confirmed at least to some degree. The MNCs studied were less successful in transferring their non-union policies to Germany than to the UK. With the exception of *Business Services*, all were engaged in collective bargaining and codetermination covered most of their German operations. As a result, global policies, particularly with regard to

pay, had to be adapted. However, national-level institutions not only alter over time, but also leave social space that MNCs can use. A good example is pay. Multi-employer bargaining in Germany has become less encompassing over the last decade. This leaves more room for MNCs either to avoid it or to limit its influence. As performance-related pay is becoming more accepted in indigenous firms, it is less contested in MNC subsidiaries.

The German example is also interesting as it indicates how the 'cultural' predisposition of actors, particularly powerful ones such as senior managers, can have an impact on the operation of MNCs. It seems that German managers are sometimes more eager to please headquarters by implementing global policies than their colleagues in the UK and other European countries. For example, *ITco* Germany was not only the first subsidiary to split up into different companies when this was demanded by headquarters in the 1990s, but also the first in Europe to introduce the variable pay system. Based on his experience as European HR director, one of our UK respondents observed: *'If ITco Europe asked the Germans to do something, they went and did it. If the French were asked to do something they went on and did nothing. And if you asked the British they would say: Why?'* A similar view emerged from interviews at *Logistico* (see Box 4).

Finally, rather than perceiving institutions primarily as a constraint, they can also be used as a resource (Wächter and Müller-Camen, 2002). Several examples (e.g. working hours at *ITco*, induction training at *Logistico*) show how the German institutional environment can foster the implementation of global policies.

For practitioners interested in organizational learning, and for policy-makers concerned with MNCs as mechanisms for bringing innovative practices to Germany and the UK, the findings have a number of implications. Most fundamentally, the transfer of policies and practices is not a smooth technical process and MNCs are not just rationalistic, economic calculating machines, nor are they a top-down tool in the hands of senior management. Rather they are structures of power and influence, coalitions of interests constantly seeking ways to accommodate different perspectives and objectives. They pursue their goals and activities through groups and actors at different organizational levels and in different roles and functions. These groups have their own interests and often control power resources, ranging from finance to knowledge and skills, with which they can exert leverage that may run counter to the formal line of control. In short, politics is important. The distinguishing feature of such politics in MNCs is that managers and other groups of employees in the subsidiaries have specific power resources, notably their expertise in understanding and interpreting the constraints and opportunities of the local environment to corporate headquarters. They have their own local networks, for example with government or local authorities, suppliers or unions, which they can mobilize in pursuit of their interests. The interests of subsidiaries may not necessarily coincide with those of the centre (as when headquarters decides to relocate production to another country), and subsidiaries themselves have to act to accommodate a range of different organizational interests at local level, notably employees, works councils and unions. All this generates a pervasive pattern of bargaining over the terms of implementation of imported policies, and hence influences how companies transmit organizational learning and innovation to their subsidiaries.

While American MNCs have a reputation for central control of policy, our case studies show how skilful subsidiary managers can mobilize the appropriate 'rhetoric' – invoking, for example, the 'business case' – to give more legitimacy to their proposed course of

**Box 4****National differences in complying with headquarters**

My 25 years' experience working for [*Logistico*] in Germany is that the German mentality is very easy for Americans to manage. We do what we are told. There are lots of laws but there are ways around them. Germans always try to apply the law in such a way that there are no problems or complications. We were the first subsidiary in Europe and even if we had tried to hide behind the regulations of the Works Constitution Act, the Americans would soon have known. But the Dutch, Belgians or English say 'well we can't do that, we are prevented from doing so by law' ... The British don't even try ... The Americans have understood that. But when it comes to the Germans, they say, 'the Germans will manage it'. I think we made some mistakes at the outset ... We saw ourselves as pioneers and we wanted the company to be a success ... We have always tried to find a solution and the Americans realized that very quickly. The other European countries have done it differently, for example the French are very rigid or in the UK, they set working hours or pay levels themselves and there is no room for discussion. (Manager, *Logistico* Germany)

It's my impression that German management is afraid of US management. My experience is that management in other European countries, such as Holland and the UK, are a lot more assertive. They say: 'this is our country. Sure, we belong to [*Logistico*], but we work to our own policies'. German managers have a tendency to do everything perfectly. They want to show that they have climbed up from the bottom to the top. In order to do that, they have to do everything they are instructed to do. I think that that is the reason why we adopt so much that comes from America. Management does it because they want to keep their positions ... Particularly in the past, management was not willing to adapt anything. The attitude was that if you did not comply, you were damaging the company. (Works council member, *Logistico* Germany)

In comparison, UK management is more willing to pick and choose which elements of global policies it implements and seems to have more freedom to do so:

Provided that the case that has been made on behalf of the country stands up then they'll [corporate management] go away and say obviously it's not going to work in that country. For instance, there's something called an employee dispute resolution procedure, and we said well we're not going to do it, it doesn't fit our culture, our stage of development, our industrial relations policy ... what we've done is pretty much cherry-pick, you know, what we've found to be useful or potentially useful and make use of it. That kind of implies that you might be able to reject some things if you cherry-pick others, but you know there obviously are those things that are mandatory, and, you know, there's by and large things that we're pretty comfortable with anyway. (HR manager, *Logistico* UK)

action. More than on other management functions, institutional distance has an impact on HRM. In the UK and in particular in Germany, host-country nationals are needed to help MNCs to adapt global policies to the local context. Therefore, not surprisingly, we encountered very few expatriates in the HR function of the subsidiaries we have studied.

Potential investors tend to regard the German system as being very strongly regulated.

They focus particularly on hard factors such as indirect labour costs and often fail to recognize the scope for flexibility which the German system offers. Protection against dismissal legislation is regarded as the most restrictive labour regulation and often discourages potential investors from choosing Germany as an investment location, the UK and Ireland being regarded as much more attractive in this respect. In contrast, companies which have invested successfully in the German business system have learnt how to challenge and use institutional restrictions in order to be locally responsive to the rigidities of the system at the same time as being able to implement standardized HR strategies. Such companies place significant demands on the German system with the result that their German subsidiaries are successful and productive. Moreover, the Europeanization of management structures and HRM strategies has already begun to pose further challenges to German institutions, as decisions affecting American companies' investment and strategies in Germany are made elsewhere and HRM strategies are increasingly designed to satisfy European business requirements rather than to fit national institutional trajectories (Wächter *et al.*, 2003).

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